



*“...To succeed, run it like a business.
A business with great fringe benefits...”*



AGRICULTURAL
DEVELOPMENT
CORPORATION

**ANNUAL
REPORT
1989-1990**

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Heritage Fund

MISSION STATEMENT

ADC's mission is to foster a sustainable, profitable agrifood sector in Alberta by ensuring the availability and advancing the productive use of the financial services necessary to meet evolving needs.



LETTER OF TRANSMITTAL

The Honourable Ernie Isley
Minister of Agriculture

Minister:

On behalf of the Board of Directors, we are pleased to submit the seventeenth annual report of the Alberta Agricultural Development Corporation.

As required by Section 9 of the Agricultural Development Act, (R.S.A. 1980, c. A-7) the report contains a summary of the business affairs of the Corporation, a statement of income and deficit, a statement of changes in financial position and a balance sheet.

Yours truly,



Harold Thornton
Chairman of the Board of
Directors



Bob Splane
President and
Managing Director

September 15, 1990

MINISTER'S MESSAGE

During the past five years, the Alberta Agricultural Development Corporation (ADC) has moved through a period of intense review and has been confirmed as an important instrument of agricultural policy. That it achieved its new direction and restructuring with such determination is testimony to the will of its leadership and the firm direction of this government.

ADC offers programs that help people and aid agriculture. The Beginning Farmer Program, ADC's core program, enables our young farmers to get a healthy start. Without it, many productive farmers would not be in business today, and the entire economy would suffer dramatically. The bottom line tells the story: since its inception in 1972, ADC has made more than 139,000 loans or guarantees to the farmers and agriculture-related businesspeople who produce raw material and agrifood products. ADC truly does help turn the wheels of agriculture in Alberta.

Diversifying Alberta's agricultural economy is my key goal as Minister of Agriculture. Creating an economic climate that advances agribusiness is a big job, and a tremendous opportunity. To be a vibrant agricultural economy, we must complement our tremendous primary production capacity with secondary processing, adding value and jobs in the process, before selling into domestic and export markets. This will mean more profits and more employment right here at home.

ADC is helping us reach that goal, by funding agribusiness ventures that provide markets for primary production, and that create opportunities for entrepreneurs who might otherwise locate elsewhere.

ADC has proved to be a capable and innovative organization in the complex business of agrifinance. Its direction is clear, its operational goals are sound, and I look forward to its continued achievements.



A handwritten signature in cursive script that reads "Ernie Isley". The signature is written in dark ink and is positioned to the right of the portrait.

Ernie Isley
Minister of Agriculture

CHAIRMAN'S MESSAGE

We are pleased to report that 1989-90 was truly a satisfying and successful year for ADC's Board of Directors.

The rewards of this past year lay in many areas. The most important of these was the continued refocusing of the Board's mandate. Our mandate is to advise the Minister on agricultural policy in general, set a direction for ADC specifically, and to ensure that the direction is maintained by management. The result has been a stronger, better directed ADC, with an effective and decisive management team carrying out policy.

Setting a strong direction helped fulfill that mandate in 1989-90. Our directional plan clearly defines the areas that the Board and staff will emphasize. Through the plan, we examined what kind of markets we should serve. We set policy on the best way to coordinate services with private sector lending institutions. We explored the need for information exchange in our industry, so that the many players can have a meaningful role in shaping public policy. We defined the need for environmental sensitivity and awareness in our policymaking. And finally, we guided management in its attempts to become even more driven by efficiency and customer service.

Public communication is key to our success. As the Board examined credit issues this year, we met with many farm groups and lenders to hear and assimilate their views. That exercise was valuable in our review of ADC's programs. Every year, the Board visits two of ADC's business regions, to meet with clients and the public, to become updated on the problems and issues our clients routinely face.

During the year, John Richter retired from the Board after six years of service. We appreciated his many practical contributions to our deliberations.

Our goal is that ADC will serve its clients and the public of Alberta with commitment, professionalism and enthusiasm. We look forward to the improvements that will be brought to agriculture through the achievement of this goal.



Harold Thornton
Chairman of the Board

PRESIDENT'S MESSAGE

The Year Past

Our view of the past year is one of success for ADC and, more importantly, for our clients. Although the agricultural economy is almost always difficult, this past year saw Alberta farmers and farm businesses cope well with both fortune and misfortune.

It is gratifying to realize, for example, that since 1972, more than 8,000 farm families used ADC's Beginning Farmer Program to help them realize their farming goals. In the past fiscal year, more than 1,000 new Beginning Farm loans indicates that young Albertans continue to take on the challenge of farm business management. They are looking to build equity in their operations. ADC exists to help them do that.

The business goals we set for the fiscal year have been reached. They included reducing the portfolio of property owned by ADC, reducing the level of arrears that create problems for both ADC and our borrowers, shortening the amount of time for loan approvals and many operational improvements.

Streamlining for Service

We improved our service to farmers in 1989-90 by moving lending decisions to our field staff, an exercise designed to make us more efficient and responsive to our clients. It has resulted in more staff in the field, consolidation of departments, and fewer people in head office. It was the single most important step to improve business practices that ADC could take.

ADC continued to automate in 1989-90, guided firstly by the needs of our clients. Field offices embraced the computer age and I am encouraged by their progress.

Adding Value to our Service

It is not surprising that some financial problems are difficult if not impossible to control. Decreasing commodity prices and increasing operating costs are the bane of farmers' existence. That's why ADC created its Index Deferral Plan (IDP) two years ago. This option allows clients to defer a portion of their annual payment, interest free, in years of below-average commodity prices until markets recover. Nearly 41 per cent of our borrowers use this option. Many of our clients have told us how important this innovation has been to the survival of their operations.

Sometimes our borrowers are faced with a major financial crisis. ADC's job is to help farmers through these times. In 1989-90, we concentrated on a number of financial restructuring options, such as proportional quit claims, postponement or discharge of security, and buy-back of home quarters at 110% of appraised value, to work out these situations. As a result, legal actions were down for the year.

New Initiatives

Agribusiness

Diversifying the agricultural economy is a key goal for Alberta agriculture today. ADC helps lead diversification by supporting companies that develop products and markets for agricultural production.

The past fiscal year saw an increase in the number and kinds of businesses supported. Our clients include operations such as forage processors, snack food producers, and seed cleaning and equipment manufacturers. They range from a company that extracts oils from mint to market as a flavour enhancer and an aromatic additive to a company that produces 15,000 sandwiches every day.

Vendor Mortgage Plan

ADC introduced its Vendor Mortgage Plan in early 1990. This new financing plan offers low interest rates and flexible repayment for the purchaser, and an attractive rate of return for the seller. ADC's guarantee to the sellers, who are often parents in a family transaction, accommodates the transfer of the family farm from one generation to the next.

Northwestern Alberta Disaster Assistance Loan Program (1989)

In February, 1990, the Premier announced some \$14.9 million in aid to parts of northwest Alberta that suffered severe losses from torrential rainstorms in 1989. ADC Loans Officers delivered the lending portion of the program, and by fiscal year end, had authorized 20 loans to eligible farmers.

The Business of Farming

Financial counselling is an important part of our job. As difficulties in the agricultural economy persist, the skills in farm business management become central to ensuring success. In years to come, ADC's role as a consultant and referral service to farmers will take on new meaning. We call it "value added service," and believe it will help farmers integrate every management aspect of their farm operations – in what is called the "whole farm" approach. I believe that fundamentally, this is the most important effort that ADC can make in years to come. I look forward to providing a service that views farming as an important business with complex production, marketing, financial and human resource components.



Bob Splane
President and Managing Director

1989/90 EXECUTIVE MANAGEMENT

L to R:

Harold Brown, VP, Planning and Communications; Dave Schurman, VP, Administration; Bob Splane, President and Managing Director; Andrew Church, VP, Operations; John Bohach, Mgr, Internal Audit



1989/90 BOARD OF DIRECTORS



Back Row L-R

Clarence Goldsmith; John Richter;
Claude Bishop; Claude Leeks; Bill Fedeyko;
Mel Cameron; Jacques Dargis

Front Row L-R

Claire Carefoot; Bob Splane; Harold Thornton,
Chairman; Brian Heidecker; Judy Pimm

BOARD COMMITTEES

EXECUTIVE COMMITTEE

Harold Thornton*
Claire Carefoot
Bill Fedeyko
Brian Heidecker
Bob Splane

HUMAN RESOURCES COMMITTEE

Claire Carefoot*
Mel Cameron
Brian Heidecker
John Richter
Bob Splane
Harold Thornton

AUDIT COMMITTEE

Bill Fedeyko*
Claude Bishop
Jacques Dargis
Clarence Goldsmith
Claude Leeks
Judy Pimm

CREDIT COMMITTEE

Bob Splane*
Jacques Dargis
Bill Fedeyko
Claude Leeks
Judy Pimm
Harold Thornton

APPEALS COMMITTEE

Brian Heidecker*
Claude Bishop
Mel Cameron
Claire Carefoot
Jacques Dargis
Bill Fedeyko
Clarence Goldsmith
Claude Leeks
Judy Pimm
John Richter
Harold Thornton

*Committee Chairperson

John Richter retired in December, 1989



CELEBRATING OUR CLIENTS

Too often we hear the negative stories related to farming. Accidents, floods, droughts, low prices, high input costs, market downturns, bankruptcies, international subsidy wars are the things that capture the agricultural news headlines.

On the other side of the coin are the men, women and their children who struggle with the difficulties and reap the rewards of successful farm management. We have chosen to profile three of our clients who began small but thought big. The common thread in these operations is the quality of the business decisions made: all arise from continual attention to financial and production details.



John and Joan Jansen are living proof that wisdom isn't strictly the provenance of age. The couple, who operate a highly-successful dairy farm near Barrhead, exude the kind of enthusiasm and capacity for hard work that seem to be the dominion of youth.

The 60-cow Holstein herd is their pride and joy, and it's evident by the spotless barn and healthy, well-conditioned cows at pasture. Bags of silage dot the landscape, not far from their tie stall barn, an existing structure they renovated after they bought the place. John speaks longingly of the newer-style free stall barns, which can better accommodate custom, computerized feeding, but he recognizes that the technology is too costly for his operation just now.

It's typical that John is thinking ahead. Back in 1981, when he was a Dairy Inspector for Alberta Agriculture, he read the industry signals right. The industry had enjoyed boom times in the late 70s, and the inevitable crunch was coming. Quota was becoming harder to obtain, and land prices were starting to climb. "I knew it was now or never," he says of their decision to enter farming. After a couple of years renting, they decided to strike out on their own.

They bought property in 1983 – two quarters – with help from ADC's Beginning Farmer loan program. "Commercial lenders wouldn't touch us," says Joan. "We had an ancient Minnie Mo tractor and a manure spreader, and that's about all," agrees John. "I invested in the herd, not machinery." According to John, herd management is everything. "I haul the vet in here for herd health checks every six weeks, no matter what."

And it shows: Herd production levels are enviable, and they haven't lost a calf over the age of two days in all their years farming. The Jansens average about 27 litres of milk per cow per day, and with their better producers, the figure routinely rises to 33 or better. That translates into approximately 8550 litres of milk per cow per year, a figure that far exceeds the provincial average. "I've had feed companies tell me my production levels are impossible, given my forage-to-grain ratio," states John, "but I've always had production goals, and I stuck to them. Still do. I'm stubborn."

Joan agrees with that, and attributes their success to personal sacrifice and basic business principles, which, in her case, were learned from her father. "My father only had grade 9, but he sure knew how to manage his business," she remarks. "It's all

attention to detail. I've learned to make good use of all the information that's available, too." Their knowledge of resources available through Alberta Agriculture helps, as does a personal computer and Joan's advanced accounting degree.

Joan and John share the labor equally, and because Joan has a CMA, she looks after the books. It's an arrangement that works well. Each is fully capable of handling any part of the operation on their own, but it ends up that John is in the field more, and Joan spends time in the barn. "I don't calve out many cows, but then, John doesn't train many heifers," she explains.

They are aided now by a fulltime worker who comes to them as part of the Green Certificate program, run by the Farm Training Branch of Alberta Agriculture. The program helps students move from farm laborer to herdsman to financial manager, through "hands on" experience with producers like the Jansens.



It hasn't been easy. Joan remembers the lean times from the perspective of one who for years lived on only \$500 a month. "And I feel like we paid for everything twice," she adds, referring to the cost of land, which was on the upswing when they entered, and the fact that they invested heavily in the herd in the early years.

Like most efficient operators, their plans for the future focus on streamlining existing operations. "We want to get more from fewer cows," Joan says. "We're running at maximum capacity right now," adds John, "and that can be trouble in cold weather. I'm always looking to improve our replacement stock and keep the numbers steady." The Jansens say that a good part of successful herd management is picking good bulls for AI, and judicious use of embryo transfers.

To the Jansens, the business of farming is a complex mixture of the good and bad. It calls for hard work, enormous personal sacrifice, and a meticulous attention to every detail, so that informed decisions can be made. Mistakes are costly, and the Jansens have made their share. Still, at the end of the day, the rewards outweigh the uncertainties. "It's a feeling of contribution," Joan says. "Knowing you are actually feeding people, even if the average person doesn't see what we do."



Eastgate Salers is a well known name in the purebred livestock business. Perhaps less well known are Springhill Salers and Silver Willow Salers, but don't count on it staying that way for long. All three businesses are owned by the Foxwell family, who run a livestock and mixed grain operation near Wainwright.

Sons Bob, 30, and Brian, 28, operate Silver Willow and Springhill, respectively. They and their parents, Fred and Bev, who own Eastgate Salers, manage a 200 head herd on some 30 quarters of prime land in central Alberta. It sounds successful, and it is. Brian and Bob and their wives have been farming close to ten years; they entered with ADC's Beginning Farmer Program in the early 1980s. Both are gradually expanding their own operations as Fred and Bev begin to look towards retirement.

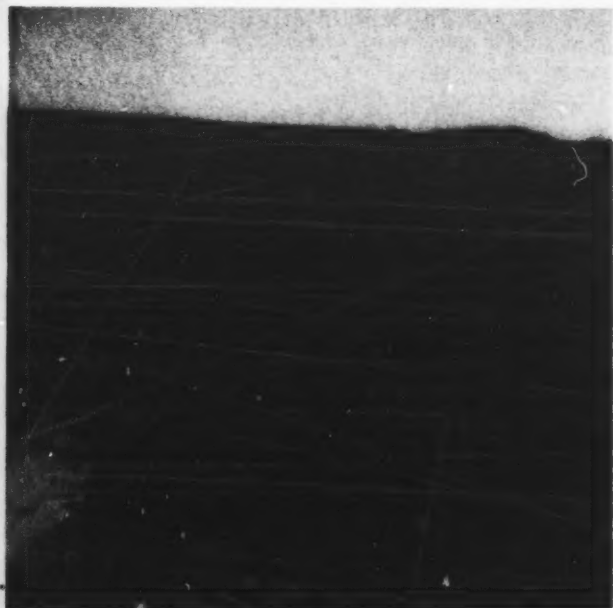
All the men are involved with the cattle, but it is Bobby whose love for the animals is most obvious. He does all the showing and PR work, which, says Brian, is a big part of their business. "Reputation is everything, and showing the herd is what it's all about." Both boys take pride in the herd, and it's evident when they discuss the competition at shows. Fall sales to cow/calf operators, who are the primary buyers of the Foxwell stock, have

been good in recent years, largely due to their successful competition at shows all across western Canada and the United States.

With an operation this big, efficient division of labour is essential. Most of the land decisions are three-way, although with most things, "Dad's the boss, and we're the gofers," as Brian puts it. Brian handles most of the field work, a big chore, for all feed for the herd is grown on the ranch. Each year, that means seeding barley and oats for feed, and hedging canola and wheat as the cash crops. Both Brian and Bob learn... the tricky art of hedging from their Dad, and the boys handle their own financial decisions separately. Production information is centralized with Fred, who uses a computer to record such data as birth weights, weaning weights, daily gain, parentage, calving information and so on. Diligent breeding records can help sell bulls, and it makes it easier for the Foxwells to keep track of costs per cow. Fred and Bob handle the cattle registrations and transfers, and Bobby does the lion's share of the bull sales.

All the Foxwells are happy they're in Salers. The operation, like many cattle ranches, has experimented with a veritable potpourri of different breeds. They ran Hereford bulls 20 years ago, after





early beginnings with a "mixed bag" of Angus, Hereford and Charolais. Then Fred took an AI course, and set about improving the herd. It took time. Many different exotics were tried and tested, but it wasn't until 1974 that Salers, a breed that originated in France, found a home with the Foxwells. Fred invested in eight cows, and six calves were born that first year.

Salers were one of the last exotic breeds to come over from Europe and they had a tough time at first. People were frustrated with the problems of most of these breeds, and were leery of trying another exotic. However, once word got around that Salers do have fewer calving problems and were very hardy, sales picked up. They continue to be one of the fastest growing breeds around.

Brian cites many advantages of the breed: they are docile, strong calvers, and have good barn manners. Unlike other exotics, he says, they do well in Alberta's harsh climate. Their dark pigmentation, heavy coat and hard hooves enable them to withstand temperature extremes and long hours of sunlight. Even better, their milk production is enviable, and the Foxwells consider them cost-efficient to feed out. "They're fairly easy to fatten up and their meat marbles at a lighter weight," Brian explains.

The move has paid off. Business is good: so good, says Brian, "Right now, we're as big as we want to be. The herd takes all the pasture and feed we can grow." The future will see the boys gradually purchasing more land and cattle from their Dad, as economics and other circumstances dictate.

Ranching is a demanding life. To the Foxwells, having pride in their work is the backbone of successful management. Staying successful also means staying informed: keeping abreast of new information, whether it's new strains of seeds, a different drug or a new technique for feed testing. But like most farmers, they're not getting rich. Grain prices plague the operation, as they do in scores of other homes on the prairies. For all their success, they share the feeling best expressed by Brian: "I take pride in my work, and I want to be paid a decent dollar for what I do."



Albertans are fortunate. We are blessed with an abundance of natural forage to feed our beef cattle, our horses, and our dairy cows. That's why it's easy to overlook the contribution of our alfalfa processing industry, a small but significant player in worldwide agriculture.

Legal Alfalfa Products, Ltd. (LAP), located near the town of Legal, 58 km north of Edmonton, produces about 60,000 tonnes of alfalfa pellets and cubes for feed per year. With its sister plant in Barrhead, which LAP purchased in 1982, Legal has become one of the largest alfalfa producers in Alberta in the 15 years since it came on the scene.

The company was spearheaded by a group of local farm producers led by the current President, Roger Vansevenandt, a Belgian immigrant and farmer in the Legal area. He and other local producers were firm believers in soil conservation and "gentle" farming practices, and so began to investigate an alternative to traditional cereal crops. Alfalfa is ideal, for it can be rotated, and its regenerative properties can actually improve the soil, and reduce the land's dependence on chemicals for productivity.

Local shareholders' equity eventually reached approximately \$430,000 of the project, valued in excess of \$1 million. ADC loans and guarantees and a Department of Rural Economic Expansion (DREE) grant accounted for the balance, and helped the project get off the ground. By the late 1970s, average yearly production hovered around 15,000 tonnes. General Manager John Baloun says determination at the beginning has paid off. "A dozen or so local farmers were really the driving force," he says. "These people are still involved today as Board members or shareholders, or in the operation somehow. It's truly a partnership with the farm."

Alfalfa is used as feed worldwide because it is a highly-digestible protein, suitable even for human consumption in its highest-quality form. The export market is enormous, and Legal takes advantage of marketing opportunities in countries such as Korea, Japan, Taiwan, Portugal and Spain. About 10,000 tonnes of LAP's product are sold in Canada.

Alfalfa processing is a story of dehydration. After it is swathed, alfalfa must be processed as soon as a slight wilting has taken place, so that the protein and vitamin A content does not deteriorate. The harvester has already cut the forage to its proper length, and it is then metered out into large dehy drums, which remove all but approxi



mately 8 per cent of its original moisture. The drums are huge, with a continuous capacity of about 300 tonnes a day.

After the dehy process, the product is conveyed to either the pelleting machine or cuber. After the product is formed into pellets or cubes, it is aerated and cooled. Natural adhesions are added (water or steam, and some inert agents that prevent oxidation), and then the product is ready for storage, or the railway cars. Ninety-nine percent of the product is shipped bulk.

This description makes the process sound simple, but the simplicity, if there is any, reflects years of refinement and diversification – like purchasing the Barrhead Alfalfa Plant in 1982, and adding a second production line in 1986. The total operation now employs 22 permanent people at Legal, another 8 permanent people in Barrhead, plus seasonal positions, for a total of up to 120 employees.

Expansion and success aren't possible without good relations with local farmers. LAP usually enters into a three-year arrangement with producers, who buy their own seed and sow their land to LAP's specs. LAP harvests, and guarantees to purchase for three years. The three-year cycle is important for both the farmer and the company. Alfalfa grows vigorously for about three years, and then must be rotated into a cereal grain for the next couple of crop years. Farmers can count on the guaranteed market while protecting their land, and LAP knows it will receive the highest quality forage possible. And as a bonus, alfalfa needs no chemical control at all.

Although Legal's final products are chiefly for export, the plant has had a dramatic effect on Alberta agriculture. Alfalfa production has risen steadily since the 1970s, and more important, it has provided secure markets for hundreds of farmers.

One implication for producers is the fact that suppliers are limited to a 15 mile radius. A relatively new process at LAP is cubing, which is made from more coarsely ground hay, and can use more baled alfalfa. That, and the higher price it demands, allows producers from places as far away as Bonnyville and Westlock to sell to LAP.

It's a direction John Baloun would like to see continue. "We're at a critical point in our development. We've expanded considerably; we're profitable. Now we must make sure we stay that way." Keeping a good cash position and keeping the operation efficient are what's ahead.



BUSINESS HIGHLIGHTS

Total Loan Portfolio

ADC's total farm lending portfolio includes 23,328 loans and guarantees amounting to 1.1 billion. Farm loans make up \$925 million from 9,798 accounts. Of that, Beginning Farmer Program loans account for \$795 million, on 7430 accounts, and 113 specific guarantees account for \$7 million. The Alberta Farm Development Loan (AFDL) portfolio is \$138 million on 13,203 guarantees.

New Programs

Early in 1990, ADC introduced its Vendor Mortgage Plan. This promising concept makes it easy for a seller to hold a mortgage for the buyer, and earn a market return on his investment. The seller receives secure, reliable income from an ADC guarantee, and the buyer can take advantage of ADC's preferred interest rates and flexible repayment. The Vendor Mortgage Plan is expected to provide new capital to the Beginning Farmer Program.

Northwestern Alberta Disaster Program loans totalled \$500,000 in the fiscal year. These loans were part of a large disaster assistance plan that the province unveiled in mid-February, designed to aid northwest Alberta farmers hard hit by heavy rains in 1989. ADC anticipates a total of approximately 200 loans for \$6 million under this program.

Fiscal Responsibility

The corporation's decision, in 1988, to decentralize lending to field staff helped ADC serve its clients more efficiently in 1989-90. Faster turnaround time and procedural improvements are important goals for staff, who are continually challenged to "work smarter."

ADC's approach to borrowers in difficulty has helped keep families on the farm. ADC works with its clients to resolve difficulties and keep the farmer farming whenever possible, and at the least cost to the taxpayer. Together, they explore such options as security postponement or sale, payment postponement, refinancing, payment deferral, sale back of the home quarter, and proportional quitclaims. The approach is yielding results: Voluntary settlements are down sharply, from 228 in 1988-89 to 104 in 1989-90. Legal actions have decreased as well, from 67 last year to 40 this year.

Arrears (greater than one year) decreased to 6.3% of the direct farm lending portfolio, down from 8.5% in 1988-89. The corporation embarked on a successful effort to decrease its property holdings, which are costly to finance and administer. The number of quarters held by ADC dropped dramatically, to 143 available for sale at March 31, 1990, compared to 427 available for sale at March 31, 1989.

Direct Lending

Direct farm lending in the past fiscal year rose to \$85.6 million on 1,062 loans, up from 737 loans for \$69.3 million in 1988-89. Renewed confidence in the agricultural economy and 1989 enhancements to the Beginning Farmer Program were largely responsible for the rise.

Guaranteed Lending

The Alberta Farm Development Loan Program (AFDL) provides an ADC guarantee to lenders, which allows farmers to obtain credit from banks, credit unions and Treasury Branches, with longer terms and lower interest rates than would otherwise be possible. In 1989-90, 5704 farmers received term financing for a total of \$75 million, compared to 6145 farmers and \$82 million in 1988-89.

Agribusiness

ADC's agribusiness portfolio is becoming more important, because it contributes substantially to the diversification of the agricultural economy. Its mandate is to encourage the growth of agrifood processing in Alberta, by providing financial services to processors who develop products and markets for primary producers.

In 1989-90, 30 new accounts for \$7.5 million were approved, more than double last year's total. The total portfolio is now at \$11.1 million on 65 accounts.

COST OF OPERATING ADC PROGRAMS

ADC Funding – Heritage Fund

ADC funds its new lending by borrowing from the Heritage Fund at rates equivalent to market interest rates for long term bonds. Normally, the Corporation issues 20 year debentures.

ADC Funding – General Revenue Fund

The majority of ADC's operating costs are funded through interest payments from borrowers. The remaining operating costs, such as interest assistance to borrowers, administration and losses on uncollectible accounts are funded annually by the General Revenue Fund.

Provision For Possible Future Losses

The practice of all prudent lenders is to set aside a provision for possible future losses on outstanding accounts. This provision is the lender's best estimate of potential losses as at a certain date. This provision is adjusted regularly to reflect changing economic conditions.

Because this is an estimate of possible future losses and therefore is not a cash requirement of the Corporation, the provision is not funded by the General Revenue Fund. If potential losses become real losses, then funding is provided through the annual budget process.

Deficit

The Corporation has an accumulated deficit which is approximately equal to the unfunded provision for future loan losses at March 31, 1990.

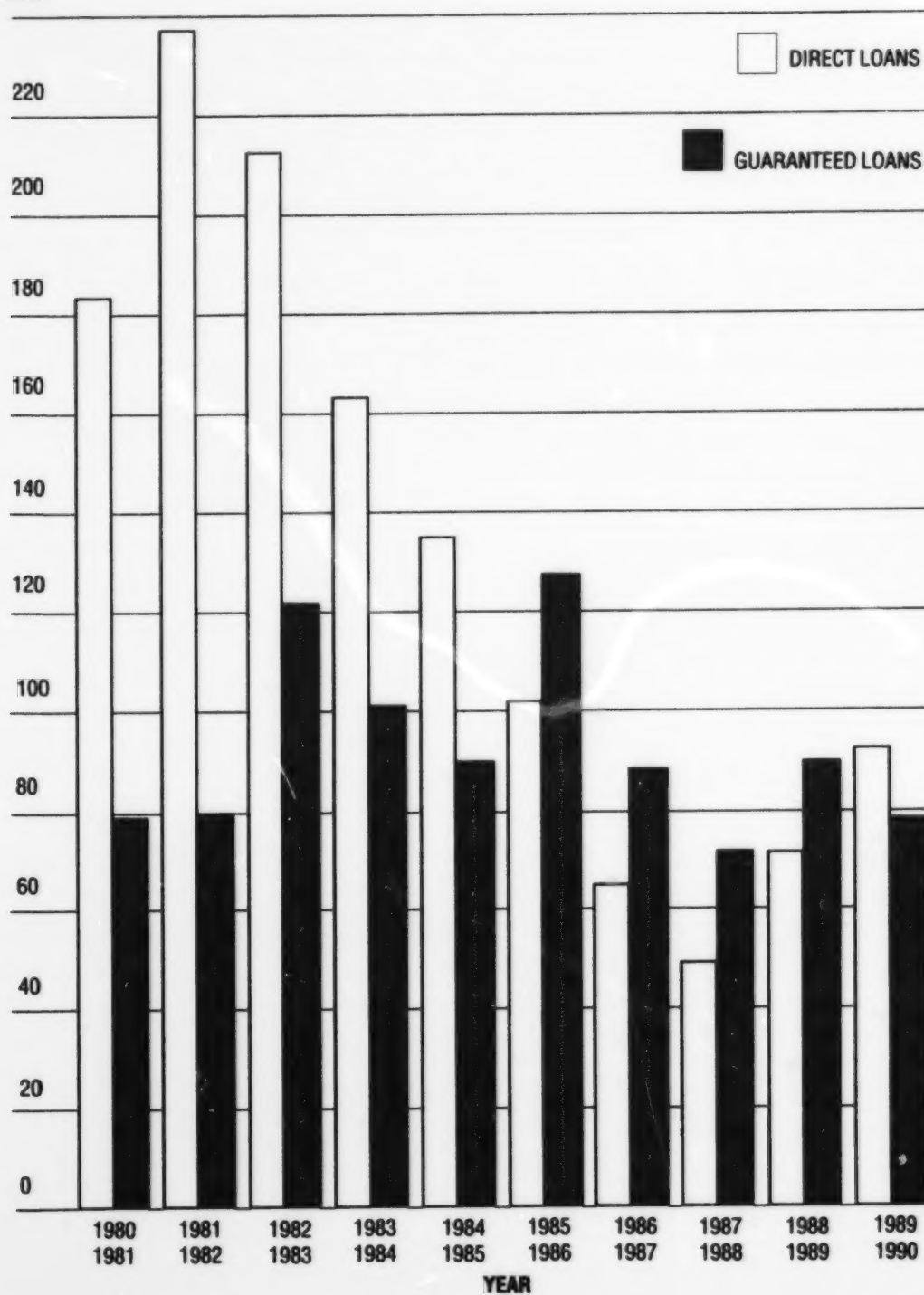
During the year 1989/90, net income was \$23 million. In previous years, the Corporation had set aside a provision for possible future losses. Some of these losses occurred and were funded through the General Revenue Fund in 1989/90, which resulted in net income to ADC of \$23 million. This resulted in a reduction in the deficit from \$98 million to \$74 million.



ADC LENDING ACTIVITY

10 Year Comparison

\$ MILLIONS 240



SUMMARY OF LENDING ACTIVITY

By Major Client Group and Type of Assistance for the year ended March 31, 1990

	1989/90		1988/89		Accumulate Authorizations June '72 - March '90		Active and Outstanding March 31, 1990	
	No.	\$Mil	No.	\$Mil	No.	\$Mil	No.	\$Mil
FARM								
DIRECT LOANS								
Beginning Farmer	1,021	83.5	702	65.8	9,816	1,162.9	7,430	794.9
Developing Farmer	21	1.6	35	3.5	114	10.7	98	8.6
Northwest Disaster	20	0.5	0	0	20	0.5	0	0
Other	—	—	—	—	5,284	278.6	2,270	121.4
	1,062	85.6	737	69.3	15,234	1,452.7	9,798	924.9
Specific Guaranteed Loans	3	0.4	18	1.8	1,935	85.2	80	5.6
Alberta Farm Development Loans	5,704	75.1	6,145	82.2	121,562	1,286.9	13,203	138.2
Farm Development Guaranteed Loans	28	1.1	62	2.5	431	17.4	33	1.4
Implemented Guaranteed Loans	—	—	—	—	—	—	141	3.8
	6,797	162.2	6,962	155.8	139,162	2,842.2	23,255	1,073.9
COMMERCIAL								
Direct Loans	22	6.2	6	1.4	168	82.2	46	8.9
Specific Guaranteed Loans	8	1.3	8	1.6	444	187.3	19	2.2
Implemented Guaranteed Loans	—	—	—	—	—	—	8	0.9
TOTAL	6,827	\$169.7	6,976	\$158.8	139,774	\$3,111.7	23,328	\$1,085.9

DIRECT FARM LOAN PORTFOLIO

Active and Outstanding Distribution Analysis as at March 31, 1990

	Beginning Farmer Program		Developing Farmer Program		Other		Total	
	No.	\$Mil	No.	\$Mil	No.	\$Mil	No.	\$Mil
BY REGION:								
Lethbridge	1,358	\$173.2	19	\$2.3	459	\$29.3	1,836	\$204.8
Airdrie	1,121	125.6	19	2.4	329	18.4	1,469	146.4
Red Deer	1,613	172.7	10	0.6	438	23.7	2,061	197.0
Vermilion	1,379	134.9	25	1.8	352	19.7	1,756	156.4
Barrhead	894	87.8	10	0.6	357	16.1	1,261	104.5
Fairview	1,065	100.7	15	0.9	335	14.2	1,415	115.8
TOTAL	7,430	\$794.9	98	\$8.6	2,270	\$121.4	9,798	\$924.9

DIRECT FARM LOAN AUTHORIZATIONS

	1989/90		1988/89	
	No.	\$Mil	No.	\$Mil
BY REGION:				
Lethbridge	159	\$15.8	120	\$14.5
Airdrie	149	14.0	120	12.5
Red Deer	217	18.0	156	14.9
Vermilion	234	18.5	146	12.3
Barrhead	154	10.7	114	9.0
Fairview	149	8.6	81	6.1
TOTAL	1,062	\$85.6	737	\$69.3

BY PURPOSE:				
Land	499	\$65.1	376	\$52.7
Equipment & Livestock	202	7.7	103	4.9
Financial Restructuring	21	0.9	66	5.5
Buildings	85	3.4	59	2.8
Other	255	8.5	133	3.4
TOTAL	1,062	\$85.6	737	\$69.3

GUARANTEED FARM LOAN AUTHORIZATIONS

Distribution Analysis for the years ending March 31, 1990 and 1989

	1989/90		1988/89	
	No.	\$Mil	No.	\$Mil
BY REGION:				
Lethbridge	977	\$17.7	936	\$17.5
Airdie	496	7.1	543	8.3
Red Deer	1,119	15.2	1,200	17.9
Vermilion	1,203	12.8	1,362	15.3
Barrhead	1,157	13.9	1,364	16.4
Fairview	783	9.9	820	11.1
TOTAL	5,735	\$76.6	6,225	\$86.5
BY PURPOSE:				
Equipment/Livestock	4,271	\$48.6	4,656	\$55.7
Operating	792	18.7	743	17.6
Land & Development	275	2.3	396	5.6
Buildings	264	4.9	283	5.3
Other	133	2.1	147	2.3
TOTAL	5,735	\$76.6	6,225	\$86.5

PROGRAM INCENTIVES EARNED

Distribution Analysis (including accruals) for the years ending March 31, 1990 and 1989

	1989/90		1988/89	
	No.	\$(000's)	No.	\$(000's)
BY REGION:				
Lethbridge	804	\$2,160	759	\$1,922
Airdrie	682	1,657	638	1,642
Red Deer	943	1,957	891	2,118
Vermilion	960	1,714	914	2,006
Barrhead	793	1,302	810	1,609
Fairview	860	1,432	893	1,593
TOTAL	5,042	\$10,222	4,905	\$10,890
BY PURPOSE:				
Beginning Farmer	4,081	\$9,687	3,693	\$10,315
Native Range	-	-	(1)	-
Range/Soil Improvement	786	338	1,067	421
Sheep Incentive	161	133	120	74
Vegetable Storage	12	30	23	73
Disaster Loans	1	1	3	7
Death Grants	1	33	-	-
TOTAL	5,042	\$10,222	4,905	\$10,890

AUDITOR'S REPORT

To the Board of Directors of the
Alberta Agricultural Development Corporation

I have examined the balance sheet of the Alberta Agricultural Development Corporation as at March 31, 1990 and the statements of income and deficit, and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ronald D. Salmon

FCA
Auditor General
Edmonton, Alberta
June 15, 1990

ALBERTA AGRICULTURAL DEVELOPMENT CORPORATION

BALANCE SHEET AS AT MARCH 31, 1990

(thousands of dollars)

	1990	1989
ASSETS		
Cash	\$ 14,250	\$ 32,619
Accounts receivable	188	440
Guarantee implementations receivable (Note 5)	600	1,185
Loans and accrued interest receivable (Note 6)	912,922	896,965
Property held for sale (Note 7)	18,760	28,139
Other assets (Note 8)	2,250	3,100
Fixed assets (Note 9)	1,730	1,974
	<u>\$950,700</u>	<u>\$964,422</u>
LIABILITIES AND DEFICIT		
Liabilities:		
Accounts payable, Province of Alberta	\$ 17,588	\$ 18,779
Accounts payable, other	488	632
Guarantees payable	502	1,154
Allowance for losses on loan guarantees (Note 10)	2,651	2,888
Accrued incentives	4,736	5,105
Debentures payable (Note 12)	999,188	1,033,380
	1,025,153	1,061,938
Deficit (Note 4)	<u>(74,453)</u>	<u>(97,516)</u>
	<u>\$950,700</u>	<u>\$964,422</u>

APPROVED BY THE BOARD:

Director

H. R. Thornton

Director

W. Steed

The accompanying notes are part
of these financial statements.

ALBERTA AGRICULTURAL DEVELOPMENT CORPORATION

STATEMENT OF INCOME AND DEFICIT FOR THE YEAR ENDED MARCH 31, 1990

(thousands of dollars)

	1990	1989
Revenue:		
Interest income	<u>\$83,889</u>	<u>\$83,345</u>
Expenses:		
Interest expense on debentures	108,121	109,962
Farm loan incentives, Schedule 1	10,222	10,890
Operating, Schedule 2	10,609	9,889
Provision for doubtful accounts and for losses on realization of assets (Note 10)	<u>26,189</u>	<u>21,049</u>
	<u>155,141</u>	<u>151,790</u>
Operating loss	71,252	68,445
Contribution by the Province of Alberta (Note 4)	<u>94,315</u>	<u>71,052</u>
Net income for the year	23,063	2,607
Deficit at beginning of year	<u>(97,516)</u>	<u>(100,123)</u>
Deficit at end of year (Note 4)	<u>\$(74,453)</u>	<u>\$(97,516)</u>

ALBERTA AGRICULTURAL DEVELOPMENT CORPORATION

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED MARCH 31, 1990

(thousands of dollars)

	1990	1989
Operating activities:		
Operating loss	\$(71,252)	\$(68,445)
Items not affecting cash:		
Depreciation	692	627
Gain (loss) on sale of fixed assets	(9)	8
Provision for doubtful accounts and for losses on realization of assets	26,189	21,049
	<u>(44,380)</u>	<u>(46,761)</u>
Property held for sale:		
Rental revenue	812	1,002
Protective payments	(1,195)	(1,899)
Proceeds from sale of properties	28,597	28,010
Repayments of principal on loans receivable	25,606	19,945
Loan disbursements	(82,665)	(66,943)
Claims paid to lenders on guaranteed loans	(2,733)	(2,470)
Investment in preferred shares	(1,000)	(1,500)
Net additions to fixed assets	(439)	(868)
Other	<u>(1,095)</u>	<u>351</u>
	<u>(78,492)</u>	<u>(71,133)</u>
Financing activities:		
Proceeds from issue of debentures-	-	47,000
Contributions by Province of Alberta	94,315	71,052
Repayment of principal on debentures	<u>(34,192)</u>	<u>(30,540)</u>
	<u>60,123</u>	<u>87,512</u>
Increase (decrease) in cash	(18,369)	16,379
Cash at beginning of year	<u>32,619</u>	<u>16,240</u>
Cash at end of year	<u>\$14,250</u>	<u>\$32,619</u>

ALBERTA AGRICULTURAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 1990

Note 1 Authority

The Alberta Agricultural Development Corporation operates under the authority of the Agricultural Development Act, Chapter A-7, Revised Statutes of Alberta 1980, as amended.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) Fixed Assets and Depreciation

Fixed assets are recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Office equipment	10 years
Electronic data processing systems	5 years

(b) Property Held for Sale

Property held for sale is recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Corporation obtains title to the property plus subsequent disbursements related to the property less any revenues or lease payments received and any related allowance for losses on realization.

(c) Interest Revenue

Interest revenue is recorded on the accrual basis on loans receivable, including those loans which are significantly in arrears. Interest revenue recognized on accounts significantly in arrears is offset by a corresponding increase in the provision for doubtful accounts.

Note 3 Indexed Deferral Plan

Effective April 1, 1988, the Corporation implemented an Indexed Deferral Plan which allows for certain portions of loan balances to be deferred, 1990 \$40,226,000 (1989 \$30,798,000), with repayment terms based on commodity price indices. In years where the current commodity index is greater than the 10 year average index, a portion of the deferred balance will be payable. Interest is not charged on amounts deferred under this Plan.

Note 4 Financial Structure

(a) The Corporation's loans are funded through the issue of debentures to the Alberta Heritage Savings Trust Fund. The Corporation's operations are funded by contributions from the General Revenue Fund of the Province of Alberta. The General Revenue Fund provides funding for the provision for doubtful accounts and for losses on realization of assets to the extent of budgeted cash requirements. At March 31, 1990, the deficit of \$74,453,000 (1989 \$97,516,000) is substantially the result of provisions which are not yet funded.

(b) Certain office accommodation and field support costs are provided by the Province of Alberta and accordingly these costs are not reflected in these financial statements.

Note 5 Guarantee Implementations Receivable

Guarantee implementations receivable are of a demand nature and consist of payments made to financial institutions for loans made by them under the Corporation's guarantee which have subsequently gone into default.

	1990	1989
	(thousands of dollars)	
Guarantee implementations receivable	\$4,729	\$6,705
Related accrued interest	696	1,195
	5,425	7,900
Less: Allowance for doubtful accounts (Note 10)	4,825	6,715
	<u>\$ 600</u>	<u>\$1,185</u>

Note 6 Loans and Accrued Interest Receivable

Loans are secured by agreements for sale and by mortgages. Assuming that options to renew will be exercised when applicable, loans are repayable in instalments due as follows:

	1990	1989
	(thousands of dollars)	
Arrears of principal and interest	\$27,993	\$36,034
Prepaid balances	(11,678)	(15,611)
Principal due in:		
1 year	32,060	29,903
2 years	32,906	29,872
3 years	34,909	31,242
4 years	37,001	33,044
5 years	39,136	34,918
6 - 10 years	225,070	204,855
Over 10 years	476,226	507,761
Amounts deferred under the Indexed Deferral Plan (Note 3)	40,226	30,798
	933,849	922,816
Plus: Accrued interest	38,925	38,628
	972,774	961,444
Less: Allowance for doubtful accounts (Note 10)	59,852	64,479
	<u>\$912,922</u>	<u>\$896,965</u>

Note 7 Property Held For Sale

Properties have been acquired as a result of foreclosures, quit claims and other actions and consist mainly of land.

	1990	1989
	(thousands of dollars)	
Cost of properties	\$51,145	\$73,858
Allowance for losses on realization (Note 10)	<u>32,385</u>	<u>45,719</u>
Estimated net realizable value	<u>\$18,760</u>	<u>\$28,139</u>

Note 8 Other Assets

	1990	1989
	(thousands of dollars)	
Unlisted preferred shares acquired as a result of security action	\$14,600	\$13,600
Less: Allowance for losses on realization (Note 10)	<u>12,350</u>	<u>10,500</u>
	<u>\$2,250</u>	<u>\$3,100</u>

Note 9 Fixed Assets

Fixed assets consist of the following:

	Cost	Accumulated Depreciation	Net Book Value	
			1990	1989
			(thousands of dollars)	
Office equipment	\$279	\$165	\$114	\$134
Electronic data processing systems	<u>3,747</u>	<u>2,131</u>	<u>1,616</u>	<u>1,840</u>
	<u>\$4,026</u>	<u>\$2,296</u>	<u>\$1,730</u>	<u>\$1,974</u>

Note 10 Allowance for Doubtful Accounts and for Losses on Realization of Assets

	Loans	Guarantee Imple- mentations	Property for Sale	Other Assets	Loan Guarantees	Total
	(thousands of dollars)					
Allowance at beginning						
of year	\$64,479	\$6,715	\$45,719	\$10,500	\$2,888	\$130,301
Write offs	<u>(9,804)</u>	<u>(3,366)</u>	<u>(31,257)</u>	<u>—</u>	<u>—</u>	<u>(44,427)</u>
	54,675	3,349	14,462	10,500	2,888	85,874
Transfers to property						
for sale	(18,910)	—	18,910	—	—	—
Provision	<u>24,087</u>	<u>1,476</u>	<u>(987)</u>	<u>1,850</u>	<u>(237)</u>	<u>26,189</u>
Allowance at						
end of year	<u>\$59,852</u>	<u>\$4,825</u>	<u>\$32,385</u>	<u>\$12,350</u>	<u>\$2,651</u>	<u>\$112,063</u>

Note 11 Lambco

Pursuant to an agreement between Lamb Processors Co-op Ltd. (Lambco), the Province of Alberta and the Corporation, the Corporation acquired the net assets and business of the Co-op. The Corporation has since provided operating advances to Lambco in accordance with the agreement, all of which have been repaid. The agreement provides that the Province will indemnify the Corporation for any losses which might be incurred on disposal of Lambco. Any disposal proceeds in excess of any operating advances to Lambco will be payable to the Province, and therefore the financial statements of Lambco are not consolidated in the financial statements of the Corporation.

Summary financial information for Lambco is as follows:

	1990	1989
	(thousands of dollars)	
Assets	<u>\$4,884</u>	<u>\$3,669</u>
Liabilities	<u>\$1,779</u>	<u>\$1,754</u>
Equity		
Beginning of year	\$1,915	\$1,132
Net income for the year	<u>1,190</u>	<u>783</u>
End of year	<u>\$3,105</u>	<u>\$1,915</u>

Note 12 Debentures Payable

Debentures payable to the Province of Alberta are as follows:

Series	Year of Maturity	Weighted Average Interest Rate	1990	March 31 Principal Outstanding 1989 (thousands of dollars)
A	2004	9.94%	\$114,480	\$ 120,660
B	2004 - 2005	10.53	30,000	31,200
C	2005	11.22	62,400	64,800
D	2006	9.95	119,400	123,900
E	2006 - 2007	9.89	164,040	170,040
F	2007 - 2009	10.94	235,650	243,900
G	2009 - 2010	10.22	87,300	89,240
H	2010 - 2011	10.52	100,280	102,460
I	2012 - 2013	10.76	39,360	40,180
J	2009	10.83	<u>46,278</u>	<u>47,000</u>
			<u>\$999,188</u>	<u>\$1,033,380</u>

The interest rates on debentures are fixed for five year periods and repayments are by annual principal instalments over the life of the debentures.

Principal repayments due in each of the next five years are as follows:

Year ending March 31,	1991	\$35,862
	1992	38,541
	1993	40,760
	1994	43,161
	1995	46,213

Note 13 Contingencies and Commitments

The Corporation has the following contingencies and commitments:

	1990	1989 (thousands of dollars)
Loan guarantees and other contingencies	\$49,053	\$53,481
Less: Allowance for losses on loan guarantees (Note 10)	<u>2,651</u>	<u>2,888</u>
	<u>\$46,402</u>	<u>\$50,593</u>
Estimated farm loan incentives over the next five years on existing loans	\$26,373	\$24,725
Approved, undisbursed loans	<u>17,082</u>	<u>13,111</u>
Total commitments	<u>\$43,455</u>	<u>\$37,836</u>

The Province of Alberta indemnifies the Corporation for any losses which might be incurred on loan guarantees.

Note 14 Comparative Figures

The 1989 figures have been reclassified where necessary to conform to 1990 presentation.

Schedule 1

ALBERTA AGRICULTURAL DEVELOPMENT CORPORATION SCHEDULE OF FARM LOAN INCENTIVES FOR THE YEAR ENDED MARCH 31, 1990

(thousands of dollars)

	1990	1989
Beginning farmer program	\$ 9,687	\$10,314
Alberta farm development loan programs:		
Range and soil improvement program	338	421
Sheep producers' incentive program	133	74
Vegetable and potato storage program	30	74
Other	34	7
	<u>\$10,222</u>	<u>\$10,890</u>

Schedule 2

ALBERTA AGRICULTURAL DEVELOPMENT CORPORATION SCHEDULE OF OPERATING EXPENSES FOR THE YEAR ENDED MARCH 31, 1990

(thousands of dollars)

	1990	1989
Salaries and wages	\$ 7,028	\$6,295
Employee benefits	927	816
Depreciation	692	627
Travel	664	712
Data processing	437	375
Equipment rental and repair	155	146
Directors' fees	143	221
Stationery and office supplies	130	146
Telecommunications	117	81
Legal	98	124
Postage, freight and express	59	58
Printing and binding	41	37
Meetings and conferences	37	27
Equipment purchases	35	49
Advertising	30	21
Professional fees	16	134
Counsellor fees and mandate review	-	20
	<u>\$10,609</u>	<u>\$9,889</u>

Call ADC head office at 679-1311 for the local ADC
Loans Officer nearest you.

Or call:

Lethbridge Regional Office
Agriculture Centre 381-5102

Airdrie Regional Office
917 Irricana Rd. 948-8522

Red Deer Regional Office
4920 - 51 St. 340-5326

Vermilion Regional Office
4701 - 52 St. 853-8109

Barrhead Regional Office
6203 - 49 St. 674-8258

Fairview Regional Office
109 St. & 102 Ave. 835-4975